9 December 2024

Independent Pricing and Regulatory Tribunal (IPART)

By Email: ipart@ipart.nsw.gov.au

To whom it may concern,

Submission: IPART Review of Prices for Water Administration Ministerial Corporation (WAMC) and WaterNSW regional and rural bulk water from 1 July 2025

This submission is prepared in response to the Issues Paper for the IPART review of the:

- Prices for Water Administration Ministerial Corporation (**WAMC**); and
- Prices for WaterNSW regional and rural bulk water from 1 July 2025.

This submission has been prepared and authorised by Murrumbidgee Irrigation Limited (**MI**).

Introduction

MI welcomes the opportunity to provide feedback in response to this initial public consultation on the IPART review of the WAMC and WaterNSW pricing proposals, to take effect from 1 July 2025.

MI is of the view that the proposed price increases are exorbitant, with price increases in the Murrumbidgee proposed to double (unregulated and groundwater) and more than double (regulated) by 2030.

Key issues raised in this submission include:

- The proposed price increases are exorbitant and are far beyond the capacity and willingness to pay for water users. MI is concerned that the proposal will lead to a significant exit of the irrigation industry, as farm businesses will become financially unviable with such large costs. The social impact of this (on the regional and national economy), as well as on food and fibre production capabilities, must be considered by IPART.
- Even with the proposed price caps, there remains a significant price shock, and ongoing concern of the ability for water users to pay. IPART must consider these price increases in the context of the cumulative impacts of many ongoing reforms on water users, which collectively are increasing the cost of doing business. MI is concerned that the Deloitte Report (Attachment 30) is based on heavily flawed methodology, and the findings are therefore highly inaccurate.
- The current model to determine water pricing is not fit-for-purpose (i.e. the impactor-pays model, based on a no-development scenario). Water management is in the public-interest,

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and increasingly the cost drivers are to meet growing community expectations for higher standards and regulations (typically to the detriment of consumptive water users).

- The current water pricing model is becoming evidently financially unviable, as we are simultaneously experiencing a decline in the customer base (i.e. declining water availability and reliability driven by reforms) and the ability to pay (driven by ongoing reforms, increasing the cost of doing business), and an increase in community expectations bringing new and enhanced costs. MI is concerned that we have reached the cross-over point, where community expectations for water management have exceeded what customers can pay.

- IPART must closely scrutinise the pricing proposals of both WAMC and WaterNSW, given the significant increases in costs, as well as historical overspends, to ensure it is prudent and efficient. IPART must also closely scrutinise the standard of services, to ensure reasonable levels of service are being provided (including both to avoid unreasonably and unnecessarily high standards in policy settings/design which comes at high cost, as well as unreasonably low standards in implementation and delivery, which also comes at a cost – both of which we are observing).

MI ultimately recommends that IPART needs to reconsider the funding model for rural water management, so that the NSW Government are paying a larger proportion of costs, particularly for public interest items, and where community expectations have driven the standards of activities to a gold-standard beyond what is reasonably required (or demanded from customers). This will ensure customers are protected, and the NSW Government are accountable and have the incentive for cost-effectiveness and efficiency in the design of policy settings and regulatory requirements that meet an appropriate standard.

About MI

MI is one of the largest private irrigation companies in Australia serving over 3,093 landholdings that are owned by over 2,300 shareholder customers. Our core business is water distribution. We provide irrigation water and drainage services to the Murrumbidgee Irrigation Area (378,911 Ha), which is one of the most diverse and productive regions in Australia.

Background

IPART sets the maximum prices that the WAMC and WaterNSW can charge their customers for water services. These prices are determined on a four-yearly basis, with the outcome of this review set to apply from 1 July 2025.

WAMC prices are to cover the costs for water agencies (DCCEEW, NRAR, WaterNSW) to undertake management activities such as planning, licensing and compliance, which covers all users in regulated, unregulated and groundwater systems. WaterNSW regional and rural bulk water charges cover water storage and delivery services in regulated rivers.

Costs are allocated between water customers and the NSW Government on behalf of other uses, based on an ‘impactor pays’ principle (i.e. depending on which party created the need for the activity).

WAMC and WaterNSW are both proposing large price increases. As a statewide average, analysis suggests proposed prices would increase over the next 5 years (on top of inflation) by:

- 3% to 35% a year on average for regulated rivers;

- 9% to 23% a year on average for unregulated rivers;
- 15% a year on average for groundwater systems.

The proposed increases for the Murrumbidgee are shown below.

Overview of proposed price increases for the Murrumbidgee (by 2030):

- Regulated:
  - High security: 142% (19% annually)
  - General security: 130% (18% annually)
- Unregulated:
  - 99% (15% annually)
- Groundwater:
  - 97% (15% annually)

The matters to be considered by IPART in reviewing these pricing proposals are outlined in Box 1.

Box 1: Excerpt from *Independent Pricing and Regulatory Tribunal Act 1992* (NSW)

15 Matters to be considered by Tribunal under this Act

(1) In making determinations and recommendations under this Act, the Tribunal is to have regard to the following matters (in addition to any other matters the Tribunal considers relevant)—

(a) the cost of providing the services concerned,

(b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services,

(c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales,

(d) the effect on general price inflation over the medium term,

(e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,

(f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the Protection of the Environment Administration Act 1991)[1] by appropriate pricing policies that take account of all the feasible options available to protect the environment,

(g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets,

(h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body,

(i) the need to promote competition in the supply of the services concerned,

(j) considerations of demand management (including levels of demand) and least cost planning,

(k) the social impact of the determinations and recommendations,

(l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

[1] Note: this is defined in the POEA Act as: 'ecologically sustainable development requires the effective integration of social, economic and environmental considerations in decision-making processes'.

WAMC

Overview

Proposal

- WAMC has proposed to cap increases in water management charges at 2.5% for customers paying the Minimum Annual Charge (MAC) to 15% for customers not paying the MAC (in addition to inflation).

- It also proposed that MDBA and BRC prices increase, reflecting full cost recovery.

Response

- The proposed WAMC price increases are exorbitant and are far beyond the capacity and willingness to pay for water users.

- Capping the increase at 15% per annum remains a significant price shock, and the overall increase over the determination period is not financially viable.

Cost-recovery

Proposal

WAMC's pricing proposal includes a notional customer share of forecast efficient costs for the 2025 determination period of 79%.

Table 3.1 Level of cost recovery in each water source in year 1 and year 5 of WAMC pricing proposal for water management charges

	Regulated rivers		Unregulated rivers		Groundwater	
	2025-26	2029-30	2025-26	2029-30	2025-26	2029-30
Border	53%	79%	30%	44%	51%	85%
Gwydir	51%	75%	30%	44%	51%	85%
Namoi	44%	66%	30%	44%	51%	85%
Peel	36%	59%	30%	44%	51%	85%
Lachlan	38%	57%	36%	56%	51%	85%
Macquarie	44%	66%	36%	56%	51%	85%
Far West			41%	62%	51%	85%
Murray	45%	66%	22%	35%	51%	85%
Murrumbidgee	51%	75%	30%	48%	43%	72%
North Coast	13%	22%	35%	57%	30%	47%
Hunter	40%	65%	32%	50%	30%	47%
South Coast	19%	31%	64%	98%	30%	47%

Source: WAMC proposal, IPART analysis.

Response

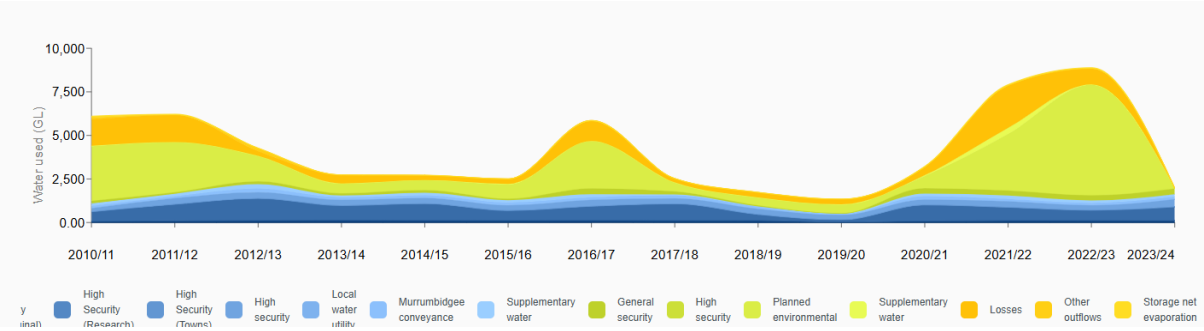
The customer share of forecast costs is too large, and not proportionate, as it is significantly beyond the extent of water usage by consumptive water users.

It is noted that the level of cost recovery in the Murrumbidgee would increase from 51% to 75% (regulated), 30% to 48% (unregulated) and 43% to 72% (groundwater). This is significantly above the proportion of water used for consumptive purposes.

To demonstrate, the Water Sharing Plan for the Murrumbidgee Regulated River Water Source states: *By limiting long-term average annual extractions to an estimated 1,925,000 megalitres per year, this Plan ensures that* ***approximately 50% of the long term average annual flow*** *in this water source (estimated to be 4,360,000 megalitres per year) will be preserved and will contribute to the maintenance of basic ecosystem health.*

Diagram 1 below, sourced from the WaterNSW WaterInsights platform, for the Murrumbidgee Regulated water source, shows the relative proportion of water used for each purpose over 10 years, with diversions in blue (including town water supply and other uses), environmental purposes in green, and operational use in orange (including losses, evaporation and other outflows).

Diagram 1: WaterInsights Murrumbidgee Regulated River Water Source relative proportion of water used for each purpose over 10 years



For the most recent water year with full data available (2022/23), the breakdown of these volumes is shown below.

Water year 2022/23: 8,885 GL
Storage net evaporation: 46 GL
Other outflows: 0.00 GL
Losses: 912 GL
Supplementary water: 15 GL
Planned environmental: 6,342 GL
High security: 0.00 GL
General security: 307 GL
Supplementary water: 129 GL
Murrumbidgee conveyance: 130 GL
Local water utility: 13 GL
High security: 262 GL
High Security (Towns): 20 GL
High Security (Research): 0.24 GL
High Security (Aboriginal): 0.70 GL
General security: 578 GL
Domestic & stock: 21 GL
Conveyance: 0.00 GL
Coleambally conveyance: 107 GL
Basic landholder rights: 1.69 GL

These proportions will continue to be reduced as reforms continue, such as the recovery of an additional 450 GL of water under the Basin Plan. IPART needs to consider the relative size of consumptive water use, and the declining consumptive pool, in determining what a reasonable share

of the costs are. At present, consumptive water users are carrying a disproportionate burden of costs to manage the entire system.

Cost-drivers

Proposal

- WAMC proposes an increase of 125% for capital expenditure (which accounts for 14% of total expenditure, as the majority of costs are operating expenditure).

- The proposal nominates a decrease of 17% in operating expenditure from the expenditure in the current period. However, the actual operating expenditure was much greater than IPART allowed in the 2021 determination, so the proposed operating expenditure for the 2025 determination is an effective increase of 98% from the previously allowed operating expenditure.

Response

Overview:

(a) The cost drivers listed as driving higher WAMC costs are largely to meet community expectations of gold-standard activities and public interest items and are not being driven by customers (to the contrary, they will serve to impact/restrict consumptive water users).

(b) MI is concerned by the significant overspends of actual versus allowed operating expenditure and is of the position customers cannot be simply expected to pick up overspends (particularly when the result of poor performance and inefficiencies).

(c) MI is very concerned that WAMC are not operating efficiently, and this is resulting in higher costs.

These are further detailed below.

(a) Response - WAMC cost drivers

WAMC states that the key factors driving the proposed cost increases are those in Column 1. Column 2 presents our view on the cost-drivers of these.

Table 1: Response to some of the key factors driving costs, as identified by WAMC

Key factors driving costs as identified by WAMC	Response to the cost-drivers
A significant increase in the number of statutory water plans that need to be replaced, amended, extended or reviewed. WAMC will be required to replace 40 plans, amend 39 plans, extend 21 plans, review 37	• The number of WSPs has not changed between determination periods and are subject to statutory timeframes for their ongoing review and renewal. These work programs should have been anticipated and do occur on an ongoing basis. • The changes being made in WSP reviews are not to the benefit of water users, in fact, we are seeing substantial reductions in the volume and accessibility of water to the detriment of productive users, such as with new WSP rules that limit access, and the reliability of water on a water entitlement.

plans and audit 18 plans.	• Water plans are designed to manage the water resource, which is a public interest activity. Even in the absence of irrigated agriculture, water planning would still be required.
Incorporating the climate risk and climate change data into the water sharing plans.	• It is pleasing to see WAMC acknowledge at the public hearing that climate drivers warrant a greater funding share by the NSW Government. This principle should be reflected in all areas of the proposal that relate to climate change. • Water sharing plans already factor in climate change. It is highly misleading for it to be suggested that they don't as the counterfactual to this work. The current arrangements are described below. • The climatic record used as input for water planning decisions is based on the full available climate record. This includes in determining the Long-Term Annual Average Extraction Limit (LTAAEL) and the priorities according to which allocations must be adjusted if extraction limits are exceeded. This is based on modelling of inflows and extraction over the full climatic record held by the Department up to the date of the finalisation of the relevant hydrological model. This is specified in the WSP. The misconception that all climate records are not reflected after the WSP was made, relates to the setting of reserves for the bulk sharing regime – however, the LTAAEL continues to be based off all available climatic information. • IPART must thoroughly interrogate the current policy settings which already exist in relation to climate change, to identify whether the extent of work proposed is actually required, or whether it goes above and beyond, or reinvents the wheel. • It must be noted that climate change is expected to mean more extreme water availability, on both sides of the spectrum (wet and dry), and work plans to date tend just to focus on the dry scenarios.
A material increase in the extent of compliance and enforcement activity required to meet the principal statutory objectives under the NRAR Act	• It is noted that NRAR said at the public hearing that widespread water theft does not occur, and most water users do the right thing. • NRAR identified that a large part of their work program is to address 'unapproved' flood works. It is noted that there are significant issues where many of these works are considered to be 'not approved', due to failures or significant delays in these approvals being issued from WAMC. This is an example of poor performance by WAMC, and water users should not have to pay the costs of this.
Investment in digital business improvement strategies.	• Digital technologies should be an efficiency measure and should lead to reduced costs.

(b) Response - overspends of actual versus allowed

- It is concerning to see the significant overspend of actual vs allowed operating expenditure.
- In principle, water users should not have to pick up the bill where operating expenditure has exceeded the allowed operating expenditure, particularly by an extent as large as this (see table 3.2 below).

- The extent of the overspends is unacceptably large, and IPART must closely examine what has caused these, including both the efficiency of expenditure, as well the contribution of poor performance in causing many of these issues (see below section).

Table 3.2 WAMC's operating expenditure covers 3 operational areas and has changed significantly in the current period ($2024-25)

	Current Period				2025 Determination Period					% increase from 2021
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	
Water Management										
Allowed	66.03	65.94	63.19	62.56						
Actual	113.36	133.87	163.81	174.64						127%
Forecast					142.67	143.35	133.31	135.22	127.98	112%
MDBA										
Allowed	10.47	10.47	10.28	10.10						
Actual	10.54	9.85	10.79	11.41						3%
Forecast					13.97	11.90	12.40	12.59	12.39	23%
BRC										
Allowed	1.20	1.13	1.36	1.07						
Actual	0.45	0.52	0.79	0.79						-46%
Forecast					0.78	0.80	0.83	0.81	0.84	-32%
Total Opex										
Allowed	77.71	77.54	74.83	73.73						
Actual	124.35	144.24	175.39	186.84						108%
Forecast					157.42	156.05	146.54	148.62	141.22	98%

Source: WAMC proposal, IPART analysis.

(c) Response – WAMC efficiency of expenditure and performance

- MI is concerned that a key driver of the overspends has been inefficiencies and poor performance.

- Specifically, many policies and programs have been poorly designed and poorly implemented, which has driven increased costs to correct (including reviews, redesign, extended timeframes for resourcing etc).

- Two (of many) examples of this include:

    - NSW Non-Urban Water Metering Reform – the range of problems have been highlighted in a recent Government review[2], which has followed repeated calls from the industry since the inception of the program that the policy settings were not feasible. Had the policy been designed appropriately from the beginning (including taking on board the concerns raised by the industry from as early as 2018/19), these blow-outs would not have occurred and would not be an issue in this determination period (as the timelines for implementation would have already occurred, so the rollout would be complete).

[2] Review of the non-urban metering rules | NSW Government Water

- NSW Water Resource Plans – according to the NSW Government, "*all twenty NSW WRPs were withdrawn following receipt of formal advice from the MDBA indicating the plans did not meet all accreditation requirements*"[3]. One of the 3 reasons cited was "*internal and other minor referencing issues*". The NSW Government downplayed this, and claimed that "*withdrawal and resubmission of WRPs, once formal advice from the MDBA is received, is a normal process followed by all states with their Basin Plan commitments and the accreditation process*". However, it must be noted that the NSW process was considerably more drawn out than other states, who did not encounter these same challenges.

- There must be a reasonable level of performance expected by WAMC. Greater scrutiny and accountability must occur to ensure that performance is adequate (particularly in designing feasible policy settings) and does not lead to cost blow-outs.

[3] Finalising water resource plans | NSW Government Water.

WaterNSW Rural Bulk Water Charges

Overview

Proposal

- The WaterNSW proposal would lead to bill increases by between 0% and 37% per year (varying by valley, type of user, etc).

- The WaterNSW proposal indicates that the efficient costs of providing regulated services will lead to revenue requirement increases of 44% on average (excl. inflation).

- WaterNSW notes that while their proposal is considered balanced, it "will result in higher costs, that if fully passed through to customers, would lead to price increases beyond what customers told WaterNSW they could afford", and states that IPART will need to consider WaterNSW's funding requirements and at the same time consider customer affordability.

- WaterNSW has provided the Cost Reflective Base Case (CRBC), as well as 3 alternative scenarios with smaller price impacts (involve setting prices below cost reflective levels). This involves capping bulk water price increases at 15% per year (plus inflation), as well as other cost reallocations (note: proposed MDBA and BRC charges would be outside the 15% price cap).

- For the Murrumbidgee, Table 48 (Attachment 26) shows the proposed prices under the CRBC, and Table 52 (Attachment 26) shows the indicative bills under the CRBC. The annualised increase is 19%, but cumulatively over the determination period, this would lead to indicative bills more than doubling from 2024-25 to 2029-30.

Table 48 – Murrumbidgee - Proposed prices - Standard Water Use Customers ($2024-25) – CRBC

Murrumbidgee	Cost Reflective Base Case (CRBC) - 40% Fixed Tariff Structure - Standard Water Use Customers						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	Annualised increase
	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	$2024-25	
High Security Fixed Charge ($/ML)	$4.86	$5.62	$6.69	$7.96	$9.48	$11.28	18%
General Security Fixed Charge ($/ML)	$1.67	$1.96	$2.33	$2.78	$3.30	$3.93	19%
Variable Usage Charge ($/ML)	$5.79	$6.76	$8.04	$9.57	$11.40	$13.57	19%

Table 52 – Murrumbidgee - Indicative bills - Standard Water Use Customers ($2025-26) – CRBC

Murrumbidgee	Cost Reflective Base Case (CRBC) - Indicative bills ($2025-26) - Standard Water Use Customers						
General Security ($2025-26)	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised increase**
Small Customer (100ML)	$514	$620	$738	$879	$1,045	$1,245	19.3%
Medium Customer (500ML)	$2,572	$3,101	$3,688	$4,393	$5,227	$6,223	19.3%
Large Customer (1000ML)	$5,144	$6,202	$7,376	$8,786	$10,454	$12,446	19.3%
High Security ($2025-26)	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**Annualised increase**
Small Customer (100ML)	$1,065	$1,276	$1,519	$1,807	$2,153	$2,562	19.2%
Medium Customer (500ML)	$5,325	$6,382	$7,593	$9,037	$10,764	$12,810	19.2%
Large Customer (1000ML)	$10,650	$12,764	$15,187	$18,073	$21,527	$25,620	19.2%

The details of the alternative proposed prices and indicative bills under the alternative scenarios can be found in Attachment 26.

Response

- MI strongly agrees with WaterNSW that the prices and indicative bills under the CRBC are beyond what customers can afford.

- Further, MI is also of the view that the prices and indicative bills under the alternative scenarios (i.e. with the 15% cap per year) are still very significant, and also beyond what customers can afford.

- MI is concerned by the magnitude of the increases to revenue requirements of 44% (before inflation), which seems excessively large.

- MI supports the proposal in Alternative Scenario 1 of reducing the user share for the 'environmental protection and planning' and 'dam safety' cost share categories for customers to 50% (from 80%), due to fairness and equity concerns of customers having to fund policy-driven environmental investments. A higher government share will provide incentive for government designed regulatory requirements to be at a standard that is cost-effective.

- MI notes that Alternative Scenario 2 involves removing fish passage and cold water pollution projects – MI recommends that funding is sort from the Federal Government as part of the remaining components of the Murray-Darling Basin Plan to fund these works, so that they can continue, without the financial burden. This is an example of where the current funding model risks important water management activities not being able to progress, as the costs are simply too high to be recovered from customers.

- MI is concerned by the size of the proposed placeholder for post-tax real weighted average cost of capital (WACC) of 4.3% for rural valleys, which is significantly higher than the 2021 determination (1.8%), and the current determination for Greater Sydney (3.6%). While we note the impact of macroeconomic factors, the impact of changes to the methodology must also be considered (noting MDB valley prices were previously subject to the ACCC WACC methodology which uses an 'on the day' approach to set the cost of debt, but this is now based on the trailing average approach for setting the cost of debt allowances). MI recommends a single WACC for Greater Sydney and the rural valleys.

General issues

Who should pay for water management?

Background

The efficient costs of WAMC and WaterNSW's rural bulk water services are allocated between water customers and the NSW Government based on the impactor pays principle (i.e. whichever party created the need for an activity). This is based on a counterfactual starting point of a world without high consumptive use of water resources. The cost-shares (i.e. the ratio of customer and NSW Government shares of costs) were reviewed in 2019. The following decisions were made in the final report.

Table 6.2 WAMC customer shares for operating and capital expenditure

Activity	2015-16 price review	2018-19 cost share review
W01-01 Surface water quantity monitoring	70	100
W01-02 Surface water data management and reporting	50	50
W01-03 Surface water quality monitoring	50	60
W01-04 Surface water algal monitoring	50	40
W01-05 Surface water ecological condition monitoring	50	50
W02-01 Groundwater quantity monitoring	100	100
W02-02 Groundwater quality monitoring	100	100
W02-03 Groundwater data management and reporting	100	100[a]
W03-01 Water take data collection	100	100
W03-02 Water take data management and reporting	100	100
W04-01 Surface water modelling	50	80
W04-02 Groundwater modelling	100	100
W04-03 Water resource accounting	100	100
W05-01 Systems operation and water availability management	100	100
W05-02 Blue-green algae management	50	40
W05-03 Environmental water management	0	80
W05-04 Water plan performance assessment and evaluation	50	50
W06-01 Water plan development (coastal)	70	70
W06-02 Water plan development (inland)	70	70
W06-03 Floodplain management plan development	0	0
W06-04 Drainage management plan development	0	0
W06-05 Regional planning and management strategies	70	70
W06-06 Development of water planning and regulatory framework	75	80
W06-07 Cross-border and national commitments	50	50
W07-01 Water management works	50	80
W08-01 Regulation systems management	100	100
W08-02 Consents management and licence conversion	100	100
W08-03 Compliance management	100	100
W08-99 Water consents overhead	100	100
W09-01 Water consents transaction	100	100
W10-01 Customer management	100	100
W10-02 Business governance and support	70	80
W10-03 Billing management	100	100

Table 6.3 WaterNSW's customer shares for operating and capital expenditure

Activity	Category of expenditure	2016-17 price review	2018-19 cost share review
Customer support	Operating	100	100
Customer billing	Operating	100	100
Metering and compliance	Operating and capital	100	100
Water delivery and other operations	Operating and capital	100	95
Flood operations	Operating and capital	50	80
Hydrometric monitoring	Operating and capital	90	90
Water quality monitoring	Operating and capital	50	80
Direct insurances	Operating and capital	100	100
Corrective maintenance	Operating and capital	100	95
Routine maintenance	Operating and capital	100	95
Asset management planning	Operating and capital	100	95
Dam safety compliance	Operating and capital	50	80
Dam safety compliance pre-1997	Capital	0	0
Environmental planning and protection	Operating and capital	50	80
Corporate systems	Operating and capital	100	80
Irrigation Corporation District (ICD) rebates	Operating and capital	100	100
Renewals and Replacement	Operating and capital	90	95
Risk Transfer Product	Operating	100	100

Source: Aither, Rural water cost sharing review Final Report, January 2019, pp 85-98.

Proposal

WAMC's proposal is to largely maintain the current cost share ratios, with the exception of reducing regional planning and management strategies from 60% to 50%. Under this proposal, the cost-share for customers would be 79% of the total notional cost (or 42% of the proposal) with the remainder allocated to the NSW Government. Under the WaterNSW charges, the CRBC proposal is also based on these cost-share ratios, noting alternative scenarios propose reducing some components.

Response

MI does not consider the current pricing framework of the impactor-pays principle, based on a counterfactual of a world without high consumptive water use, as an appropriate nor viable model, particularly moving forward.

MI is concerned that we have reached a tipping point where the demands on water management standards and activities has exceeded the capacity of the consumptive water sector to pay for it. This has a two-fold impact of:

1. Outpricing consumptive water use – with many farmers fearing that their businesses will not be financially viable under the proposed price increases (combined with the cumulative effects of other ongoing reforms too); and

2. Underfunding water management – where the demands (driven by increasing community expectations) cannot be appropriately or sufficiently funded (e.g. we have seen this with fish passageways which are important environmentally, but very expensive, and have not

progressed with a key reason being that it's beyond the ability for consumptive water users to pay).

MI notes that the cost-drivers for water management are increasingly complex, and often external (given the general public's interest in water management and increasing community expectations), which is driving more gold-standard activities, beyond what direct customers may need, and beyond what may be considered adequate/reasonable. The current model poorly considers this nuance of what level or standard is being demanded, (i.e. if it's to enable the minimum baseline activity, or whether it's for a gold-standard), and how community expectations are driving these at higher costs.

MI notes that the matters to be considered by the Tribunal under the IPART Act, involves '*the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services'* and *'standards of quality, reliability and safety of the services concerned'.*
MI is concerned that without reconsidering this model, there is no incentive on Government to be more efficient in determining cost-effective and fit-for-purpose policy settings and standards (nor to communicate the effectiveness of current policy settings to avoid the need for major reform where public sentiment may not be appropriately informed). The NSW Non-Urban Metering Reform is a prime example of this (see above).

Even if the impactor-pays model is to continue, the counterfactual (without high consumptive water use) is inappropriate and requires reconsideration, as it will always result in water users bearing a large portion of costs. In a developed society, there will necessarily be a level of consumptive water use to sustain the population (i.e. for domestic use, and agricultural production), for resilience to climate extremes (i.e. flood mitigation, and monitoring), but also in modern society to manage for environmental outcomes. These are in the public interest. The public-interest role served by the agricultural sector, in providing food and fibre, as well as economic activity (including from exports and flow on economic outcomes) needs to be considered.

Finally, in terms of the ongoing viability of the funding model, it must be recognised that there are inverse trends of:

1. Increasing costs (driven by demands for new or higher standard activities) for water management; and simultaneously,

2. Decreasing customer base to recover costs from, in terms of the declining volume of water used for consumptive purposes, the declining reliability of water (driven by reforms and climate), and the declining capacity to pay (as the cost of doing business is increasing from multiple factors).

This is a fundamental problem for the future viability of the current model.

MI recommends that the model is reconsidered to recognise the significant cost driver of increasing community expectations, above and beyond reasonable general standards or needs of direct customers. In our view, this should result in the NSW Government paying a greater share to cover the gap driven by heightened community expectations. This would mean there is incentive on the NSW Government to be more efficient in determining cost-effective and fit-for-purpose policy settings, mindful that going above and beyond a reasonable baseline will be a cost they need to incur.
If this current model is to continue, at minimum, the cost-share arrangements require significant amendments to better reflect public interest items, or items where standards are being driven by non-direct-customers.

MI also notes that a large driver of increased revenue requirement for WaterNSW is to meet a significant number of new regulatory requirements, such as changes to the WaterNSW operating licence. MI is of the view that the cost-shares for these should be heavily borne by the NSW Government, on behalf of the public, as the driver of these new requirements.

Ability to pay

Many farmers are fearing that their businesses will not be financially viable under the proposed price increases (combined with the cumulative effects of other ongoing reforms too, as well as other drivers).

MI therefore disagrees with many of the key findings of the Deloitte report (see Attachment 30) that suggests farmers will have the ability to absorb the proposed price increases, and the results that it will lead to only small percentage changes in profit margins. The limitations of this study are too significant for it to provide any meaningful or accurate indication of ability to pay. Many of these limitations are acknowledged in the report:

- '*The data for irrigators has greater uncertainty*' – the report has a lot of focus on dryland farming, which we would have considered out of scope for a water charges report. To be accurate, the report needs to be redone, looking at only farmers who utilise the water entitlements in question for their businesses (i.e. irrigators). The consideration of dryland farming profits skews the data and is not relevant.

- '*Publicly available data on the agricultural sector is limited*' – the report states that there is much richer data on broadacre commodities, which interestingly, is where the report also finds that "bulk water price increases could have a material impact on many customers in this group" and "certain high irrigation market segments such as cotton and rice are likely to be particularly exposed to bulk water price increases". MI is concerned that the optimism for other sectors may be due to poor data and incorrect assumptions, and actual data may tell a different story.

- '*the data underpinning the analysis is dated*' – the last GVIAP release was for the 2017-18 financial year, and the last data for Water Use on Australian Farms was released for the 2020-21 financial year. There have been considerable changes since this time, including to water market prices, and costs to meet changed regulatory requirements (such as metering).

- The gross margin calculation excludes fixed and overhead costs such as depreciation, interest payments, rates and permanent labour – which are significant.

MI also question the notion that larger water users have a larger capacity to pay, as this is based on highly flawed assumptions. Larger water users are already paying more via higher usage charges. Water users are experiencing significant cost increases from multiple factors, and these cumulative impacts must be considered.

MI recommends extreme caution in how this report is used and considers that major changes to the methodology and assumptions would be required for it to offer any meaningful information to this process.

Cost-driver of climate change

Proposal

- Attachment 15 looks at WaterNSW's climate change risk assessment and adaptation planning.

- The document outlines costs arising from multiple rainfall and flood events since 2021, and states that WaterNSW is looking to implement other climate adaptation actions.

- The document states that climate change measures are not expected to significantly impact costs over the determination period.

Response

- MI is of the view that climate change is a cost-driver, and under the impactor-pays model, should be considered the impactor on a number of items (with costs to be borne by the NSW Government).

- MI is concerned that a narrow view of climate change is being taken when it is stated that it won't significantly impact this determination period, as the indirect ramifications of climate change (including heightened community fear and expectations) need to be considered.

- Climate change also must consider the impacts in terms of both increased droughts and floods – focus tends to only be on dry scenarios.

- MI also notes that both WAMC and WaterNSW have undertaken significant climate change work programs (particularly coming out of the 'Tinderbox drought') during the years of the last determination period, such as Regional Water Strategies and other drought planning activities, and therefore questions the remaining workload on this front over coming years.

- MI also notes that current water sharing arrangements are built to be responsive to climate change, such as water allocations that vary based on how much water is actually available.

Recognising the role of IIOs

Proposal

- Irrigation Corporation District (ICD) rebates are paid to ICDs based on avoided cost incurred in relation to 'customer billing' and 'metering and compliance' (relates to both operating and capital expenditure).

- WaterNSW has indicated that the methodology for calculating the rebate has not changed since the last determination, and they will make no change to existing cost allocations of 100% customer share.

- Table 40 from the WaterNSW Pricing Proposal shows the annual revenue requirement including the ICD rebate component.

Table 40 – WaterNSW annual revenue requirement by determination and in total ($2024-25)

Regulatory indicators	Current determination - Annual average	Greater Sydney - Annual average	Rural Valleys - Annual average	WAMC WNSW share - Annual average	Draft proposal - Annual average	Total FY26-FY30	Annual average variance %
Total revenue requirement	**$409.1**	**$340.2**	**$196.4**	**$53.4**	**$590.0**	**$2,950.0**	**44.2%**
Operating expenditure	$197.8	$132.3	$87.4	$29.3	$249.0	**$1,245.1**	25.9%
Return of assets (depreciation)	$85.5	$89.6	$35.6	$18.2	$143.5	**$717.3**	67.7%
Return on assets	$110.1	$100.8	$64.9	$3.2	$168.9	**$844.6**	53.5%
Return on working capital	$3.4	$2.1	$1.4	$0.9	$4.3	**$21.7**	26.6%
Regulatory tax allowance	$6.9	$9.1	$3.4	$1.6	$14.0	**$70.1**	102.9%
Cost of debt true-up	$0.0	$1.3	$0.2	$0.1	$1.6	**$8.0**	n/a
FY25 true-up	$0.0	$5.1	$0.0	$0.0	$5.1	**$25.3**	n/a
ICD rebates	$2.0		$2.0		$2.0	**$10.2**	3.0%
Debt raising costs* / Volatility allowance	$1.5		$0.0		$0.0	**$0.0**	n/a
UOM adjustment	$1.9		$1.5		$1.5	**$7.4**	-21.7%
Community service obligation (CSO)**	$8.9	$1.1	$4.4	$21.5	$27.0	**$134.9**	204.1%
Regulatory indicators	**Current Determination 2024-25**	**Greater Sydney 2029-30**	**Rural Valleys 2029-30**	**WAMC WNSW share 2029-30**	**Draft proposal 2029-30**		**Variance $**
Regulated asset base (RAB) @ period end	**$4,188.9**	**$3,371.4**	**$1,676.2**	**$85.5**	**$5,133.1**		**$944.2**
User RAB @ period end	$3,158.0	$3,371.4	$1,046.5	$71.3	$4,489.3		$1,331.3
Government RAB @ period end	$1,030.9		$629.6	$14.2	$643.8		-$387.1

* Treated as opex if ACCC WACC method is used, included in return on assets if IPART WACC method is used.

** Greater Sydney CSO relates to recreational Land management. Rural Valleys existing CSO for north coast and south coast valleys. WAMC WaterNSW share of CSO is subject to change regarding DCCEEW's decision for LEW customer cost recovery.

Response

- MI strongly supports the ongoing inclusion of the ICD rebate, as ICDs perform activities/functions to customers within their areas of operation that otherwise would need to be performed by WaterNSW.
- MI seeks further information about the methodology for calculating the ICD rebate.
- IPART should consider further increasing this rebate, given the significance of cost increases (i.e. to be proportionate), and to cover a broader range of activities carried out by ICDs.

Other

- With over 1700 pages of information provided as part of this public consultation process (simultaneously with over 8 other public consultation processes at state and federal levels), it is not possible for stakeholders to have critically analysed the full extent of information available at this time. We also note this is a particularly busy time of year for the agricultural sector, and we are concerned this will impact responsiveness to this process. IPART should not consider a lack of responsiveness as a lack of interest, or acceptance of the proposals.

Stakeholders will be relying upon IPART for thorough and rigorous critical analysis of the pricing proposals.

- MI also note that despite the 1700 pages of information, a lot of key information appears to be missing (particularly at a valley-scale), which is needed for water users to make an informed response to this process.

- An ongoing problem with engagement processes by WaterNSW has been the inclusion of broader 'community' views outside the direct customer base, as this has meant: (i) direct customers who are paying the bills were a minority; and (ii) the broadening of the engagement base meant a lowering of the levels of water literacy. The methodologies used to determine viewpoints also seldom presented the trade-offs in terms of price points, which led the participants to select highest standards without understanding the ramifications (or not caring to understand as not a direct customer).

Conclusion

MI is very concerned by the proposed price increases and emphasises that it is beyond the capacity for water users to pay, with detrimental impacts to the agricultural sector.

MI is of the position that water management has reached a tipping point where the current funding model is not viable, as the demands on services, infrastructure, and other activities - particularly those driven by heightened public interest leading to gold standards (of policy design, not delivery) - has exceeded the capacity for direct customers to pay.

Ultimately, MI recommends IPART needs to reconsider the funding model for water management overall, including to ensure the NSW Government have incentive (and not disincentive) for regulatory requirements and policy settings to be cost effective and efficient.

MI appreciates IPART's comments at the public hearing that recognised the tribunal are not bound by previous decisions and hopes the severity of these pricing proposals is a catalyst for change in the current approaches to rural water pricing. The problems with these pricing proposals are well beyond just minor amendments but signify the need for a more fundamental overhaul in the current models. MI welcomes ongoing engagement as part of this process, noting the Draft Report will be published in March 2025, and Final Report in June 2025.

Please feel welcome to contact us with any questions.

Yours sincerely,

[redacted]